

# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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October 19, 2007

**Randy Booker**, Division Manager of Fiscal Services  
Special District Department  
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## **SUBJECT: AUDIT OF SPECIAL DISTRICTS' WATER AND SANITATION ACCOUNTS RECEIVABLE**

### **Introductory Remarks**

In compliance with Article V, Section 6 of the San Bernardino County Charter, we have completed an operational audit on the Special Districts' Water and Sanitation Accounts Receivable. Our audit was conducted in accordance with the generally accepted *Government Auditing Standards* issued by the Comptroller General of the United States of America.

### **Scope of Audit**

The purpose of this audit was to review specific internal controls to determine the degree to which reliance could be placed on the department's controls and the extent to which further auditing procedures were necessary. We tested the completeness and existence of the accounts receivable balances and evaluated a statistically selected sample of transactions to determine whether adequate collection procedures were performed.

### **Results of Audit**

In our opinion, the internal controls over the accounts receivable process are adequate, except for the conditions we noted that require management's attention. However, our study and evaluation of the system of internal controls would not necessarily disclose all material weaknesses in the system. The conditions noted that requires management's attention are discussed below.

## **STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS**

The following is the prior year finding that still occurred:

### **Finding 1: Customer refunds are not being reviewed and refunded timely.**

#### **Prior Recommendation:**

We suggest that overpayments and/or credit balances should be reconciled and refunded to customers in a timely manner. By doing so, the number of accounts with credit balances would decrease. Priority should be given to closed accounts with credit balances since these accounts are most susceptible to unauthorized activity.

Moreover, the District should consider adding another full-time or part-time position for a collections officer who can be dedicated to eliminating and following-up on credit accounts and collecting unpaid sewer and water fees.

#### **Current Status:**

During our audit we noted that the number of accounts with credit balances increased by 663. According to the District's records, there were 1,578 accounts with credit balances on March 31, 2007 compared to 915 accounts on June 30, 2004. Also, the amount of outstanding credit balances totaled \$110,938.16 which represented about 15% of the total outstanding accounts receivable balance and this could potentially have a material effect on the financial statements. In addition, of the 1,578 accounts with credit balances, 87 were closed and only one was greater than two years but it was less than three. Government Codes 50050-50056 requires money that has been held for three years and is unclaimed becomes the property of the local agency. Presently, the District transfers any money unclaimed after a period of three years to the Treasurer's office. It appears the District is complying with this code since there were no credit balance accounts that exceeded three years.

#### **Further Recommendation:**

It appears closed accounts are being refunded and reconciled in a more timely fashion. However, more emphasis needs to be placed on the open credit balance accounts. The District should consider possibly implementing a policy that a customer's account credit balance cannot exceed a specified dollar amount, otherwise no more payments will be accepted or money will have to be refunded.

**Finding 1: Customer refunds are not being reviewed and refunded timely. –  
Continued**

**Management's Response:**

The audit review identified 1,578 accounts with credit balances as of March 31, 2007. It should be noted that of these accounts, 252 are Crestline Sanitation District's with total credit balance of \$12,645.47. Two districts, CSA 70 F and CSA 64, were scheduled for billing through March 31, 2007 and March 25, 2007 respectively and were not billed until April 2007, which overstated balances at March 31, 2007. The Division has recently implemented procedural changes within the Collection Unit that should eliminate delays in the credit balance refunding process by accomplishing on a monthly basis.

To continue to ensure superior customer service to our customers that are part-time residents and wish to pay for service in advance, the Division will initiate a review process to identify customers that may be overpaying due to their receiving monthly payments versus bi-monthly. As these circumstances are identified the customer will be notified.

**Auditor's Response:**

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

**CURRENT YEAR'S FINDINGS AND RECOMMENDATIONS**

**Finding 2: Internal Controls over Accounts Receivable could be improved.**

Per the *Standard Practice, Internal Controls and Cash Manual*:

- Chapter 6, Two or more employees should be present when mail is open, the department may choose to use video surveillance.
- Chapter 3-Cash Controls, page 3-5, The District should immediately endorse checks received using a restrictive endorsement.
- Chapter 6-Receipts, page 6-4, Each cashier is assigned a cash drawer with a key or access card. At the start of each business day, the cashier counts and signs for the change funds in his/her possession.
- Chapter 3-Cash Controls, page 3-3 Do not make adjustments to customer's ledger accounts without approval by the department head or authorized designee

**Finding 2: Internal Controls over Accounts Receivable could be improved. -**  
***Continued***

Presently:

- There is only one employee that opens the mail, but the District uses video surveillance. However, the video surveillance is not reviewed and the tapes are recorded over every two weeks.
- Checks received through the mail are not immediately endorsed by the mail clerk. The checks are processed through a mail sorter and then endorsed by the remittance processing machine. During fieldwork, auditor observed a batch of checks that were unendorsed and not maintained in a secured manner. So, there were four people who had access to the unendorsed checks. In addition, the room is never locked during business hours which could potentially cause misappropriation.
- Cashiers are not assigned to a specific register on a daily basis. Cashiers have an employee ID they must enter for each transaction. This may help to identify who may be performing fraudulent transactions, although if multiple cashiers are using a register and money comes up missing, it would be more difficult to identify who is performing the fraudulent activity.
- The billing staff can make adjustments without supervisory approval. The adjustments detail report is not reviewed by the Supervisor or the Manager. However, the Supervisor does review the Billing register before any bills are generated for anything out of the ordinary.

**Recommendation:**

- Two or more employees should be present when mail is opened. Also, checks should be immediately endorsed with a restrictive stamp. If this is not likely, no checks should be processed through the mail sorter if they cannot be immediately endorsed. There should be no unendorsed checks lying around. In addition, the video surveillance should be reviewed at least once every two weeks before the tapes are recorded over.
- Only one cashier should be assigned to one register.
- Also, due to the fact fraud occurred before involving unauthorized adjustments, these should be reviewed more thoroughly. Each adjustment should be reviewed and authorized by management. Otherwise, the adjustment detail report should be reviewed monthly for any abnormal activity.

**Management's Response:**

- To comply with the Auditors recommendation and to ensure appropriate cash handling processes the Division is undergoing an extensive

**Finding 2: Internal Controls over Accounts Receivable could be improved. -**  
***Continued***

internal office reconfiguration to provide the necessary support during payment processing and to eliminate instances of multiple staff members using one cash register.

- The current surveillance system's use is intended to monitor customer counter activity and is currently being upgraded to a higher level of security for secondary security support if needed.
- The Data Stream Reflection billing system provides adjustment detail on the billing report for each cycle, which is reviewed by the Supervising Office Assistant I prior to customer issuance. Additionally, the system generates a month end report that identifies activity for all districts which is reviewed by the Business Operations Manager.

**Auditor's Response:**

The Department's response addresses planned actions as well as actions taken to correct deficiencies noted in the finding.

**Acknowledgements**

We wish to thank the management and staff of Water and Sanitation for their assistance and cooperation throughout the audit.

Respectfully submitted,

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Auditor/Controller-Recorder

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